CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Larry D. Lisenbee

SUBJECT: **MONTHLY FINANCIAL REPORT MARCH 2003**

DATE: May 5, 2003

Approved

Date

INFORMATION ONLY

The Monthly Financial Report (MFR) for March has been jointly prepared by the City Manager's Budget Office and the Finance Department and is presented here for the City Council's review.

OVERVIEW

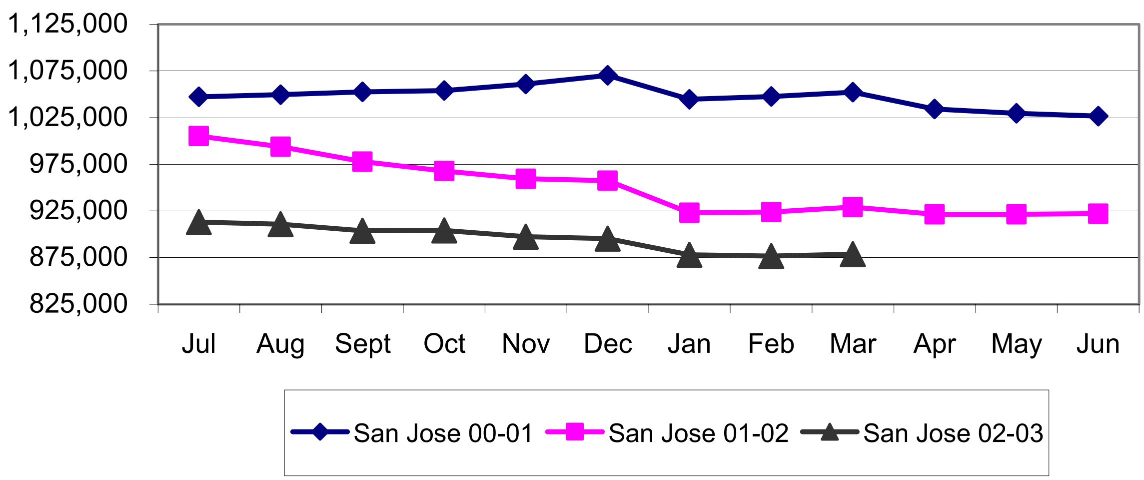
Since the Mid-Year Budget Review, the City's financial picture shows no real improvement. In fact, negative new information of particular note was received concerning our largest economically sensitive revenue category, General Sales Tax. The City received Second Quarter General Sales Tax receipt information in late March. The news was again disappointing. For a seventh consecutive quarter receipts dropped, falling 6.2% from the prior year level. This was particularly disturbing because that drop was in comparison with a poor prior year quarter that had itself been down by 18.2% from the 2000-2001 level. This report reflects Sales Tax collections which have now fallen to a level last experienced four years ago in 1998-1999. As a part of both the Annual Report and Mid-Year Budget Review processes, the budget was modified to reflect flat growth for the remainder of the year in the General Sales Tax category. In order to meet our revised budget level, we now need to achieve General Sales Tax growth averaging 1.7% for the remainder of the year. Given the continuing decline, that kind of growth would appear to be an unlikely outcome given recent performance.

Essentially, all of the City's economically sensitive revenues continued to perform below anticipated levels through March. As an expample, the Planning, Fire and Public Works development services cost-recovery revenue remained below anticipated levels, which already presumed extremely low activity along with fee increases. In addition, Construction and Convenyance Tax revenue was below last year's level by 21.7%. Also, collections continued to be down in the three construction taxes, Utility Taxes, and the Transient Occupancy Tax.

OVERVIEW (CONT'D.)

The most crucial indicator of economic health in our view continues to be the number of jobs in the County. Unfortunately, job losses still continue to be the order of the day compared to prior years (see chart below). As of March, the total number of wage and salary jobs in the County was estimated at 878,600, up by 2,000 from the February 2003 adjusted number. Though this slight increase may seem like a bit of good news, most of this increase (65.0% or 1,300) was from seasonal leisure and hospitality jobs.

San José Metropolitan Statistical Area
(Santa Clara County)
Total Wage and Salary Jobs Comparison[1]



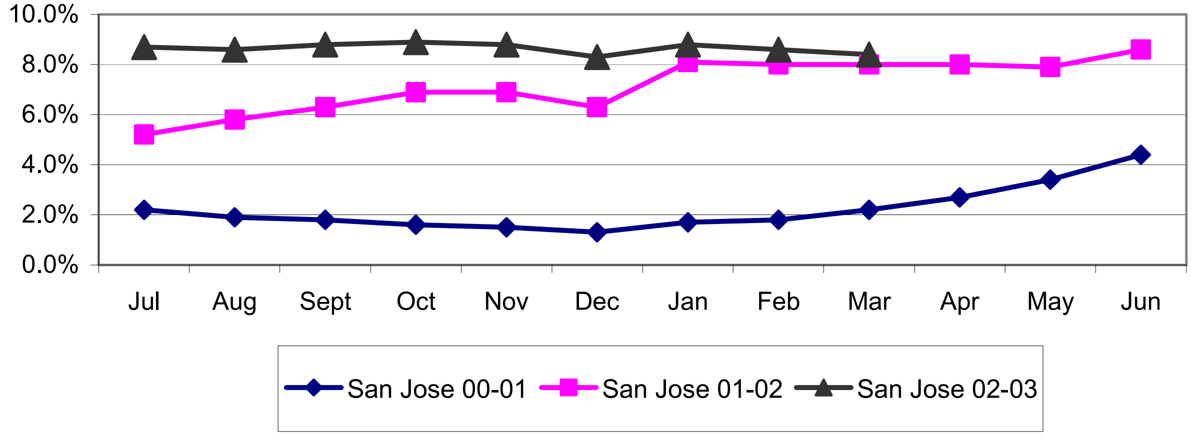
Although last year's forecast for the current fiscal year predicted an overall job count decline, that decline was only anticipated to be about one percent. The actual decline has significantly exceeded that level. It was also anticipated that the technology manufacturing job decline would be less than four percent. Jobs in this sector to date are actually falling at a much steeper rate (down 10.6%). This still alarming rate of decline in technology jobs suggests that a bottoming of the local recession has not occurred, and is likely to be at least several quarters in the future.

Locally, the unemployment rate as well as the number of wage and salary jobs remain the strongest indicators of just how weak the local economy is. While the March Santa Clara County unemployment rate of 8.4% was down slightly from February's revised rate of 8.6%, it was still well above both the State and national rates (6.8% and 5.8%, respectively).

[1] Labor Force and Industry data contained in this chart differ from previous information due to the U.S. Department of Labor's annual revision process. In addition, February was the first release of official employment estimates by industry using the new North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system.

OVERVIEW (CONT'D.)

San José Metropolitan Statistical Area
(Santa Clara County)
Unemployment Rate Comparison[2]



Adding to this dismal picture, last month the State Legislative Analyst's Office and Department of Finance projected yet another increase in it's the State's 2003-04 shortfall estimate: $40.0 million (up from $35.0 billion). The Governor's proposed budget released in January contained a mixture of proposals, some which were intended to take effect immediately, and some intended to be in effect next year. As you are aware, this budget contained a number of proposals that would be devastating for the City. Validating our long-standing worst fears, adoption of the Governor's budget would completely eliminate the State backfill of Vehicle License Fees. Fortunately this elimination has yet to be approved. If it were to be approved, that one action alone would reduce City revenues by $17.7 million in the current fiscal year, and $36.1 million next year and annually thereafter. In addition, the Governor's budget contained proposals that would cut State Library Funds by $413,000, eliminate the Booking Fee Reimbursement ($2.5 million), and suspend indefinitely Proposition 42 Street Maintenance funding ($2.0 million annually). Enactment of these actions taken together would cost the City General Fund approximately $18.1 million this fiscal year and approximately $39.1 million in 2003-2004, for a cumulative impact of $57.2 million. Added to our official forecast shortfall in the General Fund for next year of approximately $77.0 million, we now face the prospect of having to close a $134.2 million funding gap.

In response to these deteriorating economic circumstances, actions by the City Council and Administration have followed the conservative fiscal practice model that has served the City well in the past. Downward revenue adjustments of $15.0 million to the Adopted General Fund

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[2] Labor Force and Industry data contained in this chart differ from previous information due to the U.S. Department of Labor's annual revision process. In addition, February was the first release of official employment estimates by industry using the new North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system. Further, longitudinal data from the California State Employment Development Department prior to January 2002 is not strictly comparable to subsequent data due to a change in methodology.

OVERVIEW (CONT'D.)

Budget were recommended and approved in October as part of the City Manager's 2001-2002 Annual Report.[3] Three reserves (one of $10.9 million to address future deficits established through the Annual Report, the Reserve for Economic Uncertainty of $15.8 million, and the General Fund Contingency Reserve) remain intact. Additionally, as reported in earlier MFRs, the Administration has maintained a hiring freeze in place since November 2001 that has accumulated approximately 825 vacancies, and implemented cost/position management plans, the savings from which were utilized to offset revenue shortfalls reported in the Mid-Year Budget Review (Review).

As part of the Review, further downward adjustments to General Fund revenue estimates of $11.3 million were recommended and approved by City Council in response to the deteriorating fiscal conditions. Further, in light of the City's financial circumstances, expenditure augmentation actions were strictly limited in the Review report to those that were supported by additional revenue (e.g., grants), and/or those actions necessary to fulfill a City Council direction or prevent a budget overrun. In the area of development fee revenues, the City Council approved expenditure reductions or utilization of fee reserves to offset the projected revenue shortfalls in those programs. Finally, as noted earlier, departmental appropriations were decreased by approximately $7.6 million, reflecting savings departments are to achieve by year-end through their departmental cost/position management plans. These savings were used to partially offset the downward revenue adjustments.

Given the latest General Sales Tax results and the ever-widening State budget gap, additional strategies could still be needed for the City to remain within budget during the current fiscal year. At this point, however, without knowing the next General Sales Tax quarter's results, we continue to believe that the General Fund will end the year within budget. This outcome is, however, contingent upon continued expenditure restraint from the entire City, and not receiving significant new negative news regarding revenue collections.

GENERAL FUND

Revenue Collections

General Fund revenues collected through March 2003 totaled $438.4 million, a decrease of $4.8 million (down 1.1%) from the March 2002 level of $443.2 million. This performance is largely driven by a greater number of one-time and earlier than anticipated transfers from other funds. The overall performance reflects decreases from prior year levels in the following revenue categories: Sales Tax, Transient Occupancy Tax, Utility Tax, Use of Money and Property, Revenue from the State of California, and Other Revenue. Declines in those revenue categories were partially offset by increases in the following revenue categories: Property Tax; Franchise Fees; Licenses and Permits; Fines, Forfeitures, and Penalties; Revenue from Local Agencies; Revenue from the Federal Government; Departmental Charges; as well as Transfers and Reimbursements.

[3] The downward adjustments were offset by higher than anticipated year-ending fund balance, and unanticipated revenue that will be available from the sale of surplus property.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

The following discussion highlights General Fund activities through March:

KEY GENERAL FUND REVENUES
($000's)

Revenue	2002-2003 Estimate	YTD Actual
Property Tax	**$ 91,444**	**$ 60,992**

Year-to-date Property Tax revenues reflect collections in Secured Property Tax, Unsecured Property Tax, SB 813 Property Taxes (supplemental taxes), and Homeowner's Property Tax Relief.

Through March, Secured Property Tax revenues of $45.6 million were 6.8% higher than the prior year. Last month, a news report indicated that reassessments had been processed, impacting property tax revenues. According to the Office of the County Assessor, however, those reassessments were already built into estimates and information received by the City and reported in prior MFRs. Including the upward adjustments approved in the Mid-Year Budget Review, this category should end the year within budgeted expectations.

Current and Prior Unsecured Property Taxes are driven by the value of personal property, typically equipment and machinery used by business and industry for manufacturing and production. Through March, Unsecured Property Tax receipts of $11.9 million reflected flat growth over the prior year. Given the state of the local economy, this performance is actually better than anticipated. It should be noted, however, that performance in this category over the past decade has been extremely volatile and subject to sharp changes as the economy shifts. Staff will continue to monitor this revenue source closely and work with the County to obtain additional information to assist with year-end estimates.

Through March, SB 813 payments of $2.8 million tracked a better than budgeted 8.1% below last year's collection level of $3.1 million. Collections in this category, representing payments for taxes owed on recent housing re-sales, are typically a leading indicator of sales activities. The current modified budget assumes a 30.0% drop over the prior year. This category is still expected to end the year within budget. Revenue of $575,000 from Homeowner's Property Tax Relief was flat compared to last year's performance of $580,000. This category is also expected to end the year within budgeted expectations.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Sales Tax	**$ 134,279**	**$ 77,791**

As described earlier, 2002-2003 second quarter General Sales Tax receipts fell 6.2% from the same quarter in the prior year. The 2002-2003 second quarter collection represents activity that occurred October through December. While this performance may be a slight improvement over the prior quarter (down 9.6%) and the previous quarters before that (double-digit declines), it is still worse than the flat performance anticipated. Further, this performance was particularly disturbing since that drop was in comparison with poor prior year quarter that had itself been down by 18.2% from the 2000-2001 level. A downward adjustment to the 2002-2003 General Sales Tax estimate of $11.4 million was approved by City Council as a part of the Annual Report, bringing that estimate in line with actual 2001-2002 collections and to reduce expectations to flat performance for the year as a result of the first quarter performance. The second quarter General Sales Tax performance is obviously below the rate that will be necessary to achieve even that revised budget expectation. In fact, performance during the remaining two quarters will have to average 1.7% growth to achieve that budget. Given recent trends, that outcome seems very unlikely. As a result, the estimate for Sales Tax collections in the 2003-2004 Proposed Budget has been adjusted downward accordingly.

As a continuing reminder of just how hard hit this Valley has been, our decline was considerably greater than that experienced by the San Francisco Bay Area (down 2.3%) and in comparison with the State as a whole, where collections actually grew by 1.5%. While Palo Alto actually grew by 7.0%, other neighboring cities in Santa Clara County also experienced significant fall-offs in their General Sales Tax receipts: Mountain View (down 25.2%), Santa Clara (down 19.5%), Sunnyvale (down 13.3%), Gilroy (down 10.8%), Milpitas (down 10.0%), Campbell (down 6.9%), Morgan Hill (down 8.6%), Cupertino (down 8.2%), and Saratoga (down 1.5%).

Preliminary information from MBIA MuniServices, the City's Sales Tax consultant, indicates that the decline in the City's Sales Tax receipts for the most recent quarter can be attributed to poor performance in most economic sectors, but was led again by yet another double digit decline in the Business-to-Business category (down 16.8%). The following categories also suffered significant drops: Miscellaneous (down 23.9%); Transportation (down 7.3%); Food Products (down 4.2%); General Retail (down 2.1%); and Construction (down 1.6%).

Within the Business-to-Business category, the greatest declines were related to business services (down 35.6%), electronic equipment (down 28.6%), light industry (down 14.6%), and leasing (down 13.1%). Within the Transportation category, the greatest decline was in new auto sales

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Sales Tax (Cont'd.)	**$ 134,279**	**$ 77,791**

(down 15.0%), and within the Food Products category, the greatest decline was in restaurants (down 4.0%).

The following lists the largest General Sales Tax sectors and their percentage of the total for the 2002-2003 second quarter (October through December economic activity): Business-to Business at 28.2%; General Retail at 25.2%; Transportation at 22.1%; Food Products at 13.3%; Construction at 10.1%; and Miscellaneous at 1.1%.

With half a year of revenue yet to be received and given the unpredictable volatility of this year's revenue performance, it is still too early to draw definitive conclusions regarding the status of the year. However, as previously mentioned, performance during the remaining two quarters will have to average 1.7% growth to achieve that budget. As always, we will monitor this revenue source closely and report to City Council as necessary.

Revenue	2002-2003 Estimate	YTD Actual
Transient Occupancy Tax	**$ 6,700**	**$ 3,604**

TOT collections of $3.6 million through March were well below last year's level of $4.2 million. Adjusted for prior year accruals, receipts declined approximately 11.0%. Performance of this tax has still not rebounded significantly from the very depressed levels suffered in the months following the September 11 events. The March occupancy rate was 64.3%, below the February rate of 66.4%. In addition, reflecting the depressed hotel market, the monthly average room rate fell dramatically, dropping to $118.96 (March 2003) from $138.19 (March 2002). The 2002-2003 modified budget assumes a drop in this category of approximately 1.8% over the 2001-2002 collection level. As the current collection level indicates, this category is currently estimated to fall short of the budgeted level by at least $400,000. We will continue to monitor this situation very closely and recommend appropriate actions as necessary.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Franchise Fees	**$ 31,754**	**$ 17,335**

Franchise Fees collections of $17.3 million were above the March 2002 collection level of $15.3 million. This level reflects higher collections in Electric, Gas, and City-Generated Tow Franchise Fees offset by lower collections from Commercial Solid Waste. It should be noted, however, that most of these receipts are the result of formula-driven estimated payments from Pacific Gas & Electric (PG&E), based on collections in 2002, and are not necessarily indicative of actual expected receipts. In April of each year, PG&E calculates the actual Franchise Fees due in that fiscal year based on prior calendar year activity. Preliminary information from the Finance Department working with PG&E indicates that this year's Electric and Gas Franchise Fee payments will fall short of expected levels by approximately $161,000. The Budget Office will work closely with the Finance Department to confirm this preliminary report.

Commercial Solid Waste Franchise Fees of $5.3 million were approximately 17.6% below (down $1.1 million) the prior year level. Due to the 2001-2002 year-end performance of this Franchise Fee and analysis related to the year-end collection level, a downward adjustment to the 2002-2003 revenue estimate was recommended and approved by City Council as part of the Annual Report. More recent projections indicate, however, that this revenue may fall below even the revised budget level of $9.1 million by as much as $450,000. This poor performance, again, reflects the economic climate as well as additional waste diversion being experienced in the Food Waste Program and the Construction and Demolition Diversion Program. The Environmental Services Department (ESD) expects waste diversion growth to stabilize and the impact of the AB 939 shift, approved by City Council in this year's adopted budget, to be partially realized later this year. The Budget Office and ESD continue to analyze activity and refine year-end estimates.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Utility Tax	**$ 65,429**	**$ 45,842**

Utility Tax collections of $45.8 million through March were 1.1% below (down $526,000) last year's level of $46.4 million. Compared to the prior year, this year-to-date activity was primarily driven by lower performance in Electricity and Telephone Utility Taxes, partially offset by higher performance in Gas and Water Utility Taxes. Due to the 2001-2002 year-end performance of Utility Taxes and analysis related to the year-end collection level, a downward adjustment to the 2002-2003 revenue estimate was recommended and approved by City Council as part of the Annual Report. In addition, due to analysis completed in January, downward adjustments were approved in the Mid-Year Budget Review. The cumulative downward adjustments made as a part of the Annual Report and the Mid-Year Budget Review total $5.2 million. With these adjustments, this revenue category is currently expected to meet budgeted estimates.

Revenue	2002-2003 Estimate	YTD Actual
Licenses and Permits	**$ 60,706**	**$ 47,138**

Licenses and Permits revenue of $47.1 million through March was 4.0% above ($1.8 million) the prior year level of $45.3 million. Cardroom Business Tax collections ($4.6 million) were 16.0% (down $880,000) below the prior year level of $5.1 million. Though collections were down 17.3%, this revenue is actually demonstrating improved performance compared to the beginning of the fiscal year; the rate of decline has eased somewhat each month since August. For example, February experienced a drop of 17.3% while November experienced a drop of 25.4% and October was at 31.0%. The November year-to-date performance was primarily the result of revenue losses in the first four months of the year from Bay 101 related to its bankruptcy filing. July's revenue was down approximately 60.0% from the prior year. The current budget allows for an overall drop of approximately 13.0%. While no adjustments are recommended at this time, this revenue category will likely fall below budgeted expectations by at least $500,000. Staff will continue to monitor this revenue source closely.

Disposal Facility Tax revenue of $10.9 million was 9.4% above ($942,000) the prior year level of $10.0 million. As a result of prior year-end performance analysis of the Disposal Facility Tax, a downward adjustment to the current year estimate was recommended and approved by City Council in October. Throughout the year, this revenue's performance has been driven in large

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Licenses and Permits (Cont'd.)	**$ 60,706**	**$ 47,138**

part by market reactions to the removal of the Alternate Daily Cover exemption. Apparently, a portion of the yard trimmings that typically went to City landfills in the past has been transported to other locations (e.g., biomass facilities for energy production). This market reaction seems to be leveling off, stabilizing in the past couple of months. As a result of the slight improvement in February and March coupled with the Annual Report downward adjustment, this revenue source is expected at minimum to meet the budgeted level by year-end. The Environmental Services Department and the Budget Office will continue to monitor landfill activity, bringing forward a description of our findings in this report.

Fire Permit revenues of $4.6 million also continued to track below anticipated levels through March, although slightly above (5.2%) the prior year collection level of $4.5 million. Current year revenue estimates were built assuming a continuation of the activity levels of last year, with the higher fee levels approved by City Council. Collections through March reflect activity levels that are below that anticipated in the budget. In the Mid-Year Budget Review, revenues and commensurate expenditures were reduced by $500,000, lowering expectations. At this point, revenue from this source is still estimated to end the year below budgeted expectations by at least $200,000.

Building Permit revenues of $11.5 million tracked above last year's level and at revised anticipated levels. March's activity levels remained high following February, the highest month of activity for the year. Activity still continues to consist almost entirely of high-density, multi-family housing projects. Commercial activity, however, remained slow and industrial activity was almost non-existent, reflecting a consistently depressed activity level. Thus, high residential and remodel activity continues to be the only area supporting this development fee program. Fee increases of approximately 12.0% were approved in the current budget along with a few new fees. In the Mid-Year Budget Review, revenues and commensurate expenditures (fee reserve) were reduced by $500,000, lowering expectations. Though it is hoped that year-to-date activity through March is indicative of activity for the remainder of the year, a gap of approximately $250,000-$500,000 is still currently estimated by year-end. As with all revenue categories, these fees will continue to be closely monitored and adjustments to the revenue estimate, if appropriate, recommended as more information becomes available.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Fines, Forfeitures, and Penalties	**$ 11,516**	**$ 8,318**

Fines, Forfeitures, and Penalties revenue of $8.3 million was 2.1% above the prior year level of $8.1 million. This performance was driven by higher parking fines, offset by lower penalties, including the removal of the Rental Dispute Mediation Penalty from the General Fund at Mid-Year, which was transferred to the HOME Fund. This revenue source is currently expected to meet or be slightly below budgeted estimates by year-end.

Revenue	2002-2003 Estimate	YTD Actual
Use of Money and Property	**$ 11,208**	**$ 8,237**

Use of Money and Property revenues of $8.3 million were well below the prior year level of $13.5 million but at revised current year expectations, reflecting lower cash balances in many funds, including the General Fund, which have resulted in lower interest earnings for all funds. The Adopted Budget for General Fund interest earnings was built anticipating a significant drop in the average cash balance for the year, but these declines along with lower interest earnings rates through December exceeded expectations. Consequently, a downward adjustment of $1.9 million was approved through the Mid-Year Budget Review. As a result, this revenue category is currently anticipated to meet the budgeted level.

Revenue	2002-2003 Estimate	YTD Actual
Revenue from Local Agencies	**$ 42,172**	**$ 33,227**

Revenue from Local Agencies of $33.2 million was 8.4% above ($2.6 million) the prior year level of $30.7 million. This variance was primarily driven by earlier receipt of several grants, including $1.1 million from the Packard Foundation for Smart Start facilities, along with higher than anticipated reimbursements from the Redevelopment Agency ($1.3 million). No change in the budgeted revenue estimate is currently believed necessary.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Revenue from the State of California	**$ 58,618**	**$ 36,926**

Revenue from the State of California totaled $36.9 million, representing a 7.0% decline from prior year collection level of $39.7 million. The majority of this decline, however, reflects the presence of a $3.0 million accrual from last year for open space activities, (scheduled in 2001-2002 but yet to be paid by the State), from Proposition 12. In addition, the decline is also partially driven by lower Public Library Foundation funds ($572,000) and lower San José LEARNS reimbursement. Given the State budget situation, we will need to monitor closely whether those funds will, indeed, be released as originally planned.

This category also includes Motor Vehicle In-Lieu Fee (MVLF) payments of $35.3 million, reflecting year-to-date growth of 4.7% ($1.6 million). Though new car sales seem to be softening, as discussed earlier in the Sales Tax portion of this memo, at this point, barring intervention by the State, the MVLF source is still anticipated to reach the budgeted level of $52.5 million.

Revenue	2002-2003 Estimate	YTD Actual
Revenue from the Federal Government	**$ 2,613**	**$ 2,365**

Revenue from the Federal Government of $2.4 million was substantially higher than the prior year level of $1.3 million. This performance is due to various grants already received earlier than at the same time last year, including the National Safe Schools-Healthy Students grant ($939,000) and Federal Emergency Management Agency reimbursement ($343,000), partially offset by other grants not yet received but still expected. No change in the budgeted revenue estimate is currently believed necessary.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Departmental Charges		
-Public Works	**$ 6,100**	**$ 3,941**

Public Works revenue of $3.9 million was 2.7% below last year's level, but 12.3% below the anticipated level despite the fact that several new fees were implemented. Similar to the other development fee categories, current year revenue estimates were built assuming a continuation of the activity levels of last year, with the higher fee levels approved by City Council. Activity levels have not reached those anticipated levels. As a result, a Mid-Year adjustment of $256,000 was approved. March performance reflects continued weak activity in virtually all fee categories, with the poorest performances from Grading Permits, Non-Residential Engineering, and Utility Excavations. Despite the Mid-Year adjustment, a gap of at least $1.0 million is still currently estimated by year-end. This situation requires close monitoring since all of the Public Works Fee Reserve was exhausted to offset shortfalls in 2001-2002. The Budget Office will continue to work with the Department to refine projections related to year-end collection levels.

Revenue	2002-2003 Estimate	YTD Actual
-Transportation	**$ 882**	**$ 454**

Transportation revenues of $454,000 tracked 33.0% below the prior year level of $678,000. This performance compares with a 10.0% drop in the budgeted revenue estimates for this category. The weak performance was primarily driven by lower than anticipated revenues from development activity fees such as Residential Permit Parking, Signal Review, and Sidewalk Repair Administrative Charges. Current projections indicate that this revenue source will end the year below budgeted levels by as much as $200,000.

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Departmental Charges (Cont'd.)		
-Planning	**$ 3,924**	**$ 2,635**

Planning revenues of $2.6 million tracked 8.7% above last year's level of $2.4 million, but 6.0% below anticipated levels. As with the other development-related revenue sources, current year revenue estimates were built assuming a continuation of the activity levels of last year along with higher fee levels approved by City Council. Revenues received in all categories are either at or above anticipated levels, except for the Non-Residential area of PD prezonings/rezonings, environmental clearance reports, site developments, and conditional use permits. A shortfall of $200,000-$300,000 is currently projected by year-end. The Budget Office will continue to work with the Planning, Building, and Code Enforcement Department to refine year-end estimates.

Revenue	2002-2003 Estimate	YTD Actual
Other Revenue	**$ 11,721**	**$ 9,355**

Other Revenue collections of $9.4 million were significantly below the prior year level of $18.5 million. On an overall basis, however, revenues in this category are tracking within budget levels. The decline from the prior year primarily reflects last year's booking of one-time settlement revenue from the County in the amount of $5.5 million; budgetarily moving the Solid Waste Enforcement Fee to the Departmental Charges (prior year's March year-to-date level at $1.3 million); the loss of SB 90 reimbursement revenue (prior year's March year-to-date level at $839,000); last year's booking of one-time revenue from Calpine/Bechtel for a parks reserve, now reflected in the Capital Budget ($500,000); and the absence of the Packard Smart Start grant (now booked in Revenue from Local Agencies).

GENERAL FUND (CONT'D.)

REVENUES (CONT'D.)

KEY GENERAL FUND REVENUES
($000's) (Cont'd.)

Revenue	2002-2003 Estimate	YTD Actual
Transfers and Reimbursements	**$ 83,135**	**$ 71,230**

Transfers and Reimbursement collections of $71.2 million were 22.8% above ($13.2 million) above the prior year level of $58.0 million. This performance reflects higher collections of operating and capital/special fund overhead, as well as one-time transfers, including $13.3 million from the Low/Moderate Income Housing Fund for the sale of surplus property, $1.8 million from the Vehicle Maintenance and Operation Fund as a result of the vehicle audit, and higher reimbursement from the Airport for Fire and Police services. These one-time transfers were partially offset by lower transfers from the Construction Excise Tax, the absence of a one-time transfer from the Healthy Neighborhoods Venture Fund for general liability, and the absence of a one-time transfer from the Sewer Service and Use Charge Fund from interest earnings.

EXPENDITURES

Through March, General Fund expenditures of $505.8 million were 4.6% ($22.2 million) above the prior year level of $483.6 million. Encumbrances of $43.0 million were 13.7% below (down $6.8 million) the prior year level of $49.8 million. Expenditures and encumbrances ($548.8 million) through March constitute 71.0% of the total 2002-2003 revised budgeted use of funds ($772.5 million, excluding reserves).

With the exception of the Fire Department, the Parks, Recreation, and Neighborhood Services Department, and the City-Wide Sick Leave Payments Upon Retirement appropriation, individual and cumulative departmental and non-departmental expenditures appear to be within or below approved budgeted levels through March.

The following discussion highlights General Fund expenditure issues:

GENERAL FUND (CONT'D.)

EXPENDITURES (CONT'D.)

KEY GENERAL FUND EXPENDITURES
($000's)

Department	2002-2003 Budget	YTD Actual
Police	**$ 216,590**	**$ 151,559**

On an overall basis, Police Department expenditures continued to track at lower than estimated levels through March. Although the Department's personal services expenditures tracked at higher than expected levels (71.9% compared to 71.2% par level), this is entirely due to continued overtime usage for Airport security activities. With the exception of additional Police overtime at the Airport that will be reimbursed by Airport funds, it is expected that the Department will manage its overtime to remain within budgeted levels by year-end.

As part of the continuation of the Sworn Recruitment and Training Program, the 34 Officers from the July 2002 Academy are now in field training and will be street-ready in May 2003. In addition, a total of 40 recruits in the January 2003 Academy are expected to be street ready in October 2003. Current projections indicate that funding provided for this program along with vacancy savings are sufficient to cover the costs associated with the overstrength positions.

During the Mid-Year Budget process, the Airport provided additional funding to offset General Fund expenditures for Airport-security related activities through February. The Airport will provide overtime reimbursement for the remainder of the year in June once the exact amount is known. The Airport and Police Departments as well as the Budget Office continue to work on projecting the year-end overtime amount.

Overtime expenditures through March were slightly below expected levels at $7.4 million or 70.0% of the budgeted level (compared to the estimated level of 71.5%). Overtime usage for non-Airport security-related activities however tracked at much lower than expected levels. In February, in compliance with Council direction, the Police Chief issued a special memorandum covering guidelines for overtime usage. All overtime activities, with the exception of MOU overtime requirements now require pre-approval of overtime requests by the Office of the Chief.

The compensatory time balance at the end of March is 202,141 hours for sworn personnel. This level represents a drop 4.1% of 8,583 hours from the June 2002 balance of 210,724 hours and an increase of 3,173 hours (1.6%) from the March 2002 balance of 198,968 hours.

GENERAL FUND (CONT'D.)

EXPENDITURES (CONT'D.)

KEY GENERAL FUND EXPENDITURES
($000's)

Department	2002-2003 Budget	YTD Actual
Fire	**$ 109,201**	**$ 79,474**

Through March, as discussed in prior MFRs, expenditures for the Fire Department continued to track well above budgeted levels. The Department's Personal Services expenditures remain the issue, tracking at much higher than budgeted levels, reflecting the combined impact of a higher than needed non-paramedic firefighter count, and a change in the method of paramedic staffing deployment. A very small portion of this increased expenditure level is the result of uniform allowance incorrectly charged to personal services.

The Department currently has a total of 206 filled paramedics (125 front-line and 81 support), the highest level in the Department's history. The front-line total is, however, still 22 short of the 147 that are necessary to staff all apparatus fully. Last year, to address the paramedic staffing imbalance, and stay within its budget, the Department filled front-line paramedic duty requirements by deploying both front-line and support paramedic personnel. This process has been suspended since July to conduct an assessment of the impact of "dual role" practice. This suspension has, however, resulted in the Department's Personal Services tracking significantly above budget.

In November, the Department initiated an accelerated accreditation process for 13 Firefighter Paramedics. This has resulted in an increase in the number of front-line Paramedics by 13 in March. The Department has implemented additional strategies to reduce this gap, including the redeployment of personnel to provide coverage for Fire Engineer and Paramedic vacancies. Coinciding with the end of the Wildland Fire Season in early November, personnel from four brush patrol and one water tender companies and personnel on administrative duties have been redeployed to provide minimum staffing coverage to reduce overtime usage. In early March, the Department issued a Special Bulletin that included expenditure control measures. Except for fulfillment of minimum staffing needs, overtime usage now requires prior review and approval by the Fire Chief's Office. Incorporating the proposed deferral of the purchase of a fire truck for training and including additional reimbursements for mutual aid, the year-end shortfall in this department is projected at $2.3 million.

GENERAL FUND (CONT'D.)

EXPENDITURES (CONT'D.)

KEY GENERAL FUND EXPENDITURES
($000's) (Cont'd.)

Department	2002-2003 Budget	YTD Actual
Fire (Cont'd.)	**$ 109,201**	**$ 79,474**

In February, 16 Firefighters were enrolled in the Northern California Training Institute's Paramedic School. These 16 Firefighters are expected to be accredited in December, thereby increasing the number of front-line Paramedics to a projected level of 136 (factoring in projected retirements and promotions).

The City Manager's Office continues to work with the Department and the union on additional strategies to address both the short-term staffing issue and to develop long-term strategies to close the gap in front-line paramedics.

Current estimates indicate that the Department's level of non-personal/equipment expenditures are tracking at budgeted levels.

Department	2002-2003 Budget	YTD Actual
Parks, Recreation, and Neighborhood Services	**$ 61,792**	**$ 43,021**

Parks, Recreation, and Neighborhood Services Department personal services expenditures through March continued at higher than budgeted levels (approximately 65.8%, compared to par level of 63.5%). In light of the relatively high level of vacancies in this department, the higher than anticipated expenditure level appears to reflect higher than budgeted expenditures for part-time staff and overtime to fill behind the vacant positions. This performance level is actually an improvement over previous months, as the Department has tightened controls on both part-time and overtime usage, narrowing the anticipated, year-end gap. Even with the Mid-Year adjustment decreasing the Department's personal services appropriation by the target amount required by its cost/position management plan, the Department still indicates that it fully expects to stay within its personal services and non-personal/equipment appropriations.

GENERAL FUND (CONT'D.)

EXPENDITURES (CONT'D.)

KEY GENERAL FUND EXPENDITURES
($000's) (Cont'd.)

Department	2002-2003 Budget	YTD Actual
City-Wide Strategic Support	**$ 50,657**	**$ 31,551**

The City-Wide Strategic Support category includes funding for Sick Leave Payments Upon Retirement, among many other items. Though this appropriation was increased in the Mid-Year Budget Review, Sick Leave Payments Upon Retirement continues to track higher than anticipated due to a high number of retirements, including a large $3.0 million payment level booked in February. This appropriation will likely exceed budget by at least $1.5 million by year-end. Staff will monitor this appropriation closely and bring forward a recommended adjustment as part of the year-end clean-up package.

OVERTIME EXPENDITURES

On an overall basis, overtime expenditures tracked below or at anticipated levels, primarily driven by the controls on the use of overtime implemented in response to Council direction at the beginning of February. With the exception of the Fire Department as well as Parks, Recreation, and Neighborhood Services Department, preliminary information provided by the major departments indicates the following:

- As directed, overtime usage is being authorized by department directors for emergencies and genuine, unavoidable expenses only.
- Genuine unavoidable expenses included such things as aged compensatory time paid, and required coverage during non-traditional business hours and/or holidays.
- Drops in overtime since February have ranged from the 11.5% generated by the Police Department to as much as 71.1% in the Transportation Department.

Based on data through March, it appears that departments are exercising greater control of overtime authorization and containing overtime costs. The Administration will continue to monitor and report on overtime containment and report as directed by Council in coming Monthly Financial Reports.

GENERAL FUND (CONT'D.)

CONTINGENCY RESERVE

Through March, the General Fund Contingency Reserve was down by $202,500 from the 2002-2003 Adopted Budget level of $24,549,175 (to $24,346,675). This reflects three revisions to the Contingency Reserve that were approved during the first nine months of the year:

- A decrease of $27,500 to provide matching funds for an Office of Criminal Justice Planning "Domestic Violence" grant.
- A decrease of $35,000 to provide for studies required to amend the General Plan related to the Almaden Youth Association Agreement.
- A decrease of $140,000 to provide additional funds related to the Campaign Review and Ethics Board.

OTHER FUNDS

Construction and Conveyance Tax Funds

Construction and Conveyance Tax revenue collections have now exceeded the total annual budgeted collection level due to stronger performances in the first half of the year. However, in recent months all signs point to a reduction in real estate activity, and our collections have begun to decline significantly. The number of property transfers for all types of residences fell approximately 24.0% in March from sales recorded in March 2002. For the last three months, the number of property sales dropped 4.2% from 7,627 to 7,309.

Through March, $15.5 million in actual tax revenues have been received (97.0% of the 2002-2003 estimate of $16.0 million). This collection level is 21.7% lower than revenues received through March 2002. In addition to these revenues, the City has since received April Conveyance Tax receipts totaling $2.0 million. This amount is 31.0% lower than the April 2002 amount of $2.9 million. As mentioned, through the first half of the current fiscal year, collections for this tax were performing strongly. However, collections have now declined sharply compared to prior year collections for four consecutive months. It is anticipated this negative trend will likely continue as a result of the prolonged economic downturn. While the declines in recent months are more in line with the budgeted estimate that allows for a 39.0% drop from the 2001-2002 collection level, the strength of collections in the first half of the year resulted in year-to-date receipts exceeding the budgeted level.

OTHER FUNDS (Cont'd.)

Other Construction-Related Revenues

In a departure from recent trends, recent data on construction-related revenues offer a glimmer of good news. Construction-related tax revenues had been depressed for over a year and a half. However, February's strong performance was followed by a better than average month in March, and current year receipts are now above the prior year's significantly reduced collection patterns. The unexpected strength was driven almost exclusively by residential permit activity, where new construction now well exceeds last year's pace and already surpassed the forecast with an entire quarter remaining. Commercial and industrial activity, however, continues to be very depressed, reflecting the economic situation in the area. The year-to-date total of the seven revenue sources monitored for this report is $20.7 million, an increase of 11.8% from the $18.5 million collected through the same period last year. On an overall basis, this performance is better than modified budget estimates that allow for a 25.4% drop from the prior year. The strong third quarter results are more likely to be an exception than the beginning of a cyclical recovery. Industrial and commercial development shows little sign of revival due to the existing over-capacity, while strong residential development may be negatively impacted if interest rates start trending higher.

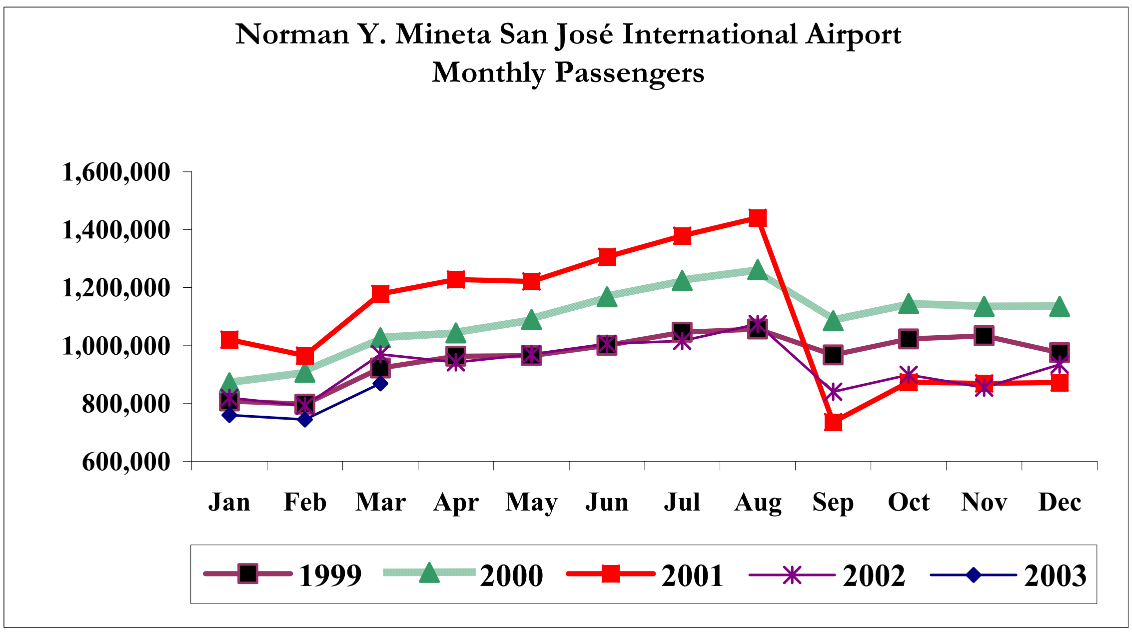
Building and Structure Construction Taxes as well as Construction Excise Taxes had receipts in March that were roughly twice the average monthly totals of July through January. As a result, after tracking below prior year levels for most of the year, revenues through March for these two funds now exceed revenues from the same period in 2001-2002. Actual revenues also exceed year-end estimates for current year collections in both funds. Specifically, Construction Excise Tax receipts through March totaled $11.7 million (107.6% of the current 2002-2003 estimate of $10.9 million). Year-to-date performance is now tracking 13.1% higher than last year's $10.4 million received over the same period. Building and Structure Tax receipts through March yielded $7.4 million (106.2% of the current 2002-2003 estimate of $6,924,000). This represents an increase of 5.2% from the revenues collected through the same period last year ($7.0 million).

All of the smaller construction tax revenue categories also outperformed prior year data, with one exception: Municipal Water Service Connection Fees tracked below prior year collection patterns. Sanitary Sewer Fee receipts through March totaled $892,000 (126.8% of the current 2002-2003 estimate of $703,000), a level equal to 137.1% of last year's $650,000 collected over the same period. Fee receipts through March for the Storm Drain Fees totaled $355,000 (101.2% of the current 2002-2003 estimate of $351,000), corresponding to 138.5% of the $256,000 received over the same period last year. Residential Construction Tax receipts through March reached $223,000 (278.6% of the modified estimate of $80,000), corresponding to 177.6% of last year's receipts of $125,000 through March. Major Facilities Fees collections through March totaled $114,000, (228.7% of the revised 2002-2003 estimate of $50,000). In contrast, Service Connection Fee receipts through March totaled $22,192 (6.9% of the current 2002-2003 estimate of $320,000), 78.4% below collections through March 2001 ($102,903). Because Service Connection Fee revenues recover actual costs to install new services, this revenue decline is coupled with a decline in costs, as well. Staff will continue to monitor these revenues closely.

OTHER FUNDS (Cont'd.)

Airport Funds

Activities at the Norman Y. Mineta San José International Airport (SJC) continue to be negatively impacted by the combined conditions of the local and national economy and the events of September 11. In addition, conflict in the Middle East and the uncertainties associated with security fears, changes in the airline industry and impacts related to Severe Acute Respiratory Syndrome (SARS) continue to deter people from flying. Through March 2003, SJC enplaned and deplaned just under eight million passengers, 8.7% less than the prior year. The SJC served approximately 868,813 passengers, a 10.4% decrease from the prior year. Terminal C passenger activity decreased slightly by 1.7% in monthly comparisons and activity for the fiscal year was lower by 5.2%. For Terminal A, March passenger activity decreased by 14.5% and 10.4% for the fiscal year.



The number of monthly passengers continues to drop below 1999 and 2000 levels. Activities are simply not showing signs of significant improvement and continue to be adversely impacted by such the factors already mentioned: the downturn in the local economy, industry-wide effects of September 11, SARS, and the conflict in the Middle East. Major U.S. airlines continue the reduction of flight operations in response to the sharp declines in passenger activity. American's current fiscal year passenger levels are 22.3% lower than the previous fiscal year, while low-cost airline Southwest's passenger activity is 2.8% higher. Air carriers reporting significantly reduced fiscal year passenger totals are United, Continental, Alaska and Delta; down 18.8%, 11.1%, 6.8% and 23.2%, respectively. However, several carriers have experienced fiscal year passenger growth, including Northwest (7.9%), Mexicana (10.9%), Horizon (54.8%) Air

OTHER FUNDS (Cont'd.)

Airport Funds (Cont'd.)

Wisconsin (52.9%) and Skywest (78.2%). Skywest's fiscal year totals continue to be greatly impacted by the airline's increased role as United's regional carrier to Los Angeles as part of United's expanded Express service. The advent of operations by American Trans Air has resulted in 69,549 additional passengers flying out of Terminal C this fiscal year. In March, American Airlines added one non-stop daily flight to John F. Kennedy International Airport. However, due to the downturn in the Silicon Valley economy, beginning April 5, Northwest Airlines will be cutting three daily flights from its SJC schedule. The carrier hopes to resume the flights sometime in June.

Fiscal year-to-date mail, freight and cargo poundage totaled 215.3 million pounds, a 5.9% decrease from 2001-2002. The decrease is largely attributable to a 30.4% reduction in mail and a 10.8% drop in freight. Fiscal year-to-date domestic cargo is down by 3.9%.

Taxicab operations were down 3.7% in monthly comparisons, and fiscal-year-to-date totals are 6.1% lower than those recorded in 2001-2002.

Passenger Facility Charge (PFC) fee collections reported in March tracked at anticipated budgeted levels.

Overall revenue collections in the Airport Revenue Fund through March 2002 totaled $68.74 million and are now tracking at 98.0% of anticipated budgeted levels. Revenues are tracking slightly below anticipated levels for parking and roadway as well as general and non-aviation programs. Terminal rentals, airfield, terminal concessions, and miscellaneous rents and petroleum programs are all tracking above the prorated budget while transfers from Airport Improvement Program grant money and landing fees are tracking at 100% of projections.

Airport Police overtime costs are anticipated to exceed the current overtime allocation. The Airport and Police Departments are currently reviewing year-to-date overtime expenditures to determine the final amount of reimbursement. It is anticipated that Airport funding will be recommended for allocation during the year-end clean-up process in June to fund remaining overtime costs.

Through March, the Airport continues to manage costs according to internal savings targets, which were identified as part of an overall effort to reduce the Aviation Services City Service Area budget and bring expenses into balance with anticipated revenues. Total reductions of $3.54 million have been identified for this fund, or $0.3 million in personal services and $3.24 million in non-personal/equipment.

Expenditures in the Airport Maintenance and Operations Fund (Fund 523) through March are tracking below budgeted levels in both personal and non-personal categories. Measuring against

OTHER FUNDS (Cont'd.)

Airport Funds (Cont'd.)

the Airport's budget, less savings targets, personal services expenditures totaled 67.8% of budget compared to the prorated benchmark of 71.2%. Savings are attributed to departmental vacancies and reduced overtime expenditures to date. Through March, the Airport had 49 vacancies, 31 of which were defunded in 2002-2003. The remaining 18 positions are funded and three of these positions are currently backfilled.

Overtime expenditures to date total $207,005 (57.1% of budget), as compared to $345,881 year-to-date in 2001-2002. Overtime at the Airport has been used to provide critical holiday coverage, after hours support, maintain mandated staffing levels, and provide emergency response. Procedures for the use of overtime include the notification and prior approval by the Director, in addition each division Deputy is required to provide a detailed summary of any use of overtime each pay period. Also, overtime usage has been reduced through careful analysis of shift coverage requirements, including appropriate coverage for holidays.

Measuring against the Airport's budget, again less savings targets, year-to-date non-personal/equipment expenditures total approximately 53.7% of budget as compared to the benchmark of 64.6%, which represents average year-to-date expenditures for the Airport over the past three fiscal years. Savings in the Airport non-personal category result primarily from lower than anticipated expenditures in supplies and contractual services and reflects the Airport's efforts to meet the internal savings targets mentioned above. Current encumbrances total $12.1 million, which brings total non-personal/equipment commitments to 85.8% of the Airport's modified budget for March.

Year-to-date revenues from the Airport Customer Facilities and Transportation Fee Fund (Fund 519) of $2,793,576 are below the prior year levels by approximately 0.3%, due to reduced activity. Year-to-date expenditures in this particular fund were at 61.8% of the anticipated budget level. Expenditures tracked lower than anticipated due to vacancy savings and for lower than anticipated bus insurance, fuel, land lease, and bus operator and maintenance/lease costs. March's average daily shuttle bus ridership was only 77.0% of March 2002.

Transient Occupancy Tax Fund

TOT Fund collections of $5.4 million through March were approximately 11.0% below last year's level, adjusting for accruals. As was described above for General Fund Transient Occupancy Tax collections, performance of this tax has simply not rebounded from the depressed levels suffered in the months following the immediate aftermath of the September 11 events, and collections have remained sluggish well into the current fiscal year. The March occupancy rate was 64.3%, below the February rate of 66.4%. In addition, reflecting the depressed hotel market, the monthly average room rate fell dramatically, dropping to $118.96

OTHER FUNDS (Cont'd.)

Transient Occupancy Tax Fund (Cont'd.)

(March 2003) from $138.19 (March 2002). The 2002-2003 modified budget assumes a drop in this category of approximately 1.8% over the 2001-2002 collection level. Due to the lower than expected 2001-2002 collection level of $1.05 million, in October, reductions of $262,740 for the Convention and Visitor Bureau and the Arts Groups allocation were approved by City Council, as was a reduction of $525,420 to the Conventions, Arts, and Entertainment Department (CAE). Additional downward adjustments were approved as a part of the Mid-Year Budget Review. The adjustments resulted in additional decreases to revenue available for allocation to the three TOT Fund recipients. The impact reduced allocations by $1.3 million for CAE, and $650,000 for the Convention and Visitor Bureau and $326,000 for the Arts Groups. March collections were also worse than anticipated. Our latest year-end projections now indicate we are likely to fall below even the revised lower estimate by as much as $600,000. The recipient groups have been notified that they will likely have to absorb yet another reduction in their allocation when the final total is known next fall.

Convention and Cultural Affairs Fund

On an overall basis, both revenues and expenditures in the Convention and Cultural Affairs Fund were lower than expected through February. Convention Center occupancy has been running near 75.0% throughout the year. Given that occupancy level, Mid-Year adjustments of $3.3 million were approved as a part of the Mid-Year Budget Review. Even with those adjustments, however, the fund will likely experience a year-end shortfall of at least $500,000, primarily driven by lower concessionary income (e.g., food and beverage). The Conventions, Arts, and Entertainment Department continues to work to create a plan that would reduce both revenue and expenditure budgets. Proposed adjustments may be recommended by year-end.

Unemployment Insurance Fund

Claims expenditures in the Unemployment Insurance Fund are still projected to end the year within budgeted levels. Due to the continued high unemployment rate in Santa Clara County expenditures have been tracking above estimated levels. As a result, upward adjustments were recommended and approved as part of the Mid-Year Budget Review. This fund recently received its final quarterly payment from the State and it looks as though this fund will meet modified budget expectations.

OTHER FUNDS (Cont'd.)

Integrated Waste Management Fund

Overall, through March, revenues tracked below estimated levels and expenditures tracked above anticipated levels. The revenue performance is primarily driven by Recycle Plus rate increases that will impact the fund in the latter part of the fiscal year; lower than expected Yard Trimmings cart subscriptions (15.0% versus an anticipated 30.0% level); and lower Commercial AB 939 fees impacted by the economy and increased diversion. Current estimates project revenues to fall short of budget by at least $1.0 million. Higher than anticipated expenditure levels were primarily due to higher Multiple Family Dwelling contract expenditures as a result of higher than expected recycling cart subscriptions; and higher workers' compensation claims. In addition, Single Family Dwelling projections related to the Recycle Plus contract will impact this fund, requiring a year-end clean-up for this and the other expenditure-related previously mentioned. By year-end, current projections indicate that this fund may end the year close to $1.0 million below anticipated levels. Appropriate budget adjustment actions to remedy this problem as part of the final year-end clean-up.

CONCLUSION

Economic indicators and City revenue collections confirm the fact that we continue to be in a severe local economic downturn from which we should not expect significant relief in the immediate future.

Although the severity of the economic situation is greater than anticipated, the fact that we are experiencing a downturn was not a surprise. Based on our early predictions about a coming problem, the Administration and the City Council have acted decisively over the last two years to prepare for this situation. Surplus prior year funds were diverted from the previously scheduled establishment of new projects, and used instead to fund reserves to address the downturn. These reserves remain untapped. Approximately 19 months ago, the Administration implemented hiring and expenditure controls that continue today, and began early this year to develop plans to close a huge gap in the 2003-2004 budget. Further, per City Council direction based on the Mayor's Budget Strategy, in January additional stringent cost containment measures were put in place (e.g., freeze on major renovations, travel, equipment expenditures, overtime, etc.)

The combined impact of these various measures have allowed us to weather the economic downturn to date with relatively minor impacts, but we have much work ahead to bring our expenditures back into alignment with our projected revenue. Looming over all of this effort, of course, is the prospect of significant impacts from the State budget process. We remain very confident however, that our track record of prudent financial planning will continue, and we will respond to this crisis appropriately.

CONCLUSION (CONT'D.)

As always, we will continue to closely monitor our current year financial status and report monthly to the Council on any significant developments through this reporting process.

LARRY D. LISENBEE
Budget Director